BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R97-1

RESPONSES OF MAGAZINE PUBLISHERS OF AMERICA WITNESS COHEN TO INTERROGATORIES OF UNITED PARCEL SERVICE (UPS/MPA-T2-4-9)

(February 11, 1998)

Pursuant to the Commission's Rules of Practice, Magazine Publishers of America hereby submits the attached responses to interrogatories propounded by United Parcel Service to witness Cohen (UPS/MPA-T2-4-9).

Respectfully submitted,

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UPS/MPA-T2-4. Please confirm that using your proposed distribution technique (and the LIOCATT method), the cost for empty letter trays would be distributed, in part, to subclasses which are predominantly or exclusively comprised of flats and parcels. If not confirmed, please explain.

Responses:

Not confirmed. Unlike witness Degen's methodology, I do not propose a separate distribution key for empty letter trays. My proposed methodology distributes all "moving empty equipment costs" on the basis of total direct tallies by CAG and basic function. In Table 1 below, I show, for all facilities, the breakdown of tally costs for the moving empty equipment category. As this table shows, one-third of the category consists of tallies where the employee is not handling any item or container. Not handling and general purpose containers together represent almost half of total moving empty equipment costs. Empty letter trays are less than 10 percent of the total.

Table 2 shows my distribution of moving empty equipment costs (as well as mixed all shapes, clocking in and out, breaks/personal needs, and carrier-related costs) to classes of mail. It would appear that letter-shaped mail is assigned more than 10 percent of the costs. I would not, however, draw any conclusions from these results as to the causal connection between empty letter tray costs and subclasses of mail.

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Table 1. Moving Empty Equipment Tally Costs

Type	Tally Cost ($000s)	Percent
Not Handling	360,580	32.8%
gpc/apc/	145,627	13.3%
Letter Tray	105,777	9.6%
hamper	90,560	8.2%
Flat Tray	59,410	5.4%
bmc-otr	55,614	5.1%
u-cart	48,108	4.4%
nut.trck	41,230	3.8%
z-oth cn	30,682	2.8%
White #2 Sack	19,262	1.8%
wiretain	18,832	1.7%
White #1 Sack	18,028	1.6%
ermc	13,244	1.2%
Pallet	12,121	1.1%
Orange or Yellow Sack	11,411	1.0%
White #3 Sack	10,996	1.0%
Other Item	10,740	1.0%
Brown Sack	9,654	0.9%
p-pack	8,864	0.8%
Green Sack	7,692	0.7%
Con-Con	6,702	0.6%
Other Color Sack	4,531	0.4%
Small Parcel Tray	4,202	0.4%
Blue and Orange Sack	3,623	0.3%
International Sack	1,402	0.1%
notin cn	0	0.0%
Total	1,098,892	100.0%

Table 2. MPA Distribution of Overhead and Carrier-Related Costs

Class	Distribution
First	61.14
Priority	3.35
Express	0.56
Periodicals	4.72
Standard A	21.85
Standard B	3.30
Spec. Svcs.	5.08

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UPS/MPA-T2-5. Please confirm that using your proposed distribution technique (and the LIOCATT method), the cost for empty flat trays would be distributed, in part, to subclasses which are predominately or exclusively comprised of letters and parcels. If not confirmed, please explain.

Responses:

Not confirmed. Unlike witness Degen's methodology, I do not propose a separate distribution key for empty flat trays. My proposed methodology distributes all "moving empty equipment costs" on the basis of total direct tallies by CAG and basic function. In Table 1 of my response to interrogatory UPS/MPA-T2-4, I show the breakdown of tally costs for the moving empty equipment category. As this table shows, one-third of the category consists of tallies where the employee is not handling any item or container. Not handling and general purpose containers together represent almost half of total moving empty equipment costs. Empty flat trays are approximately 5 percent of the total.

Table 2 of my response to interrogatory UPS/MPA-T2-4 shows my distribution of moving empty equipment costs (as well as mixed all shapes, clocking in and out, breaks/personal needs and carrier-related costs) to classes of mail. It would appear that flat-shaped mail is assigned more than 5 percent of the costs. I would not, however, draw any conclusions from these results as to the causal connection between empty flat tray costs and subclasses of mail.

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UPS/MPA-T2-6. Please confirm that an empty item, before being emptied, could have been an IOCS identical item. If confirmed, please explain how it is unreasonable to use identical items to distribute the cost of empty items. If not confirmed, please explain.

Responses:

I agree that an empty item could have previously contained identical mail. Depending on the type of item, it may also have previously contained top-piece rule mail, counted mixed-mail or uncounted mixed-mail. Once the item is empty I don't know how you would know which of these were true.

Furthermore, the question seems to assume that all empty item costs are related to productive mail activities. However, as I explained in my testimony, there has been a very significant growth in the costs of not-handling mail, including moving empty equipment costs, in recent years leading to uncertainty about the causal connection between empty equipment costs and any classes of mail. Moving empty equipment has traditionally been included in overhead costs which grew from 23 percent of all other mail processing costs in 1989 to 31.5 percent in 1996.

In light of this uncertainty, I have recommended two courses of action to the Commission. First, I have recommended reverting to the previous more aggregated distribution methodology for mixed-mail costs to avoid reliance on unsupported assumptions. Second, I have recommended that the Commission recognize the alarming growth in empty equipment and other traditionally defined overhead costs and the likelihood that some portion of these costs are caused by inefficiency related to automation by treating a portion of these costs as institutional costs pending further data collection and analysis by the Postal Service.

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UPS/MPA-T2-7. Please refer to page 29, lines 7-9, of your testimony.

(a) Please confirm that only 8 percent of empty and uncounted item costs are distributed on by Mr. Degen the basis of fewer than 5 tallies, as shown in DMA-LR-1. If not confirmed, please explain.

(b) Please confirm that less than 3 percent of identified mixed container costs are distributed by Mr. Degen on the basis of fewer than 5 tallies, as shown in DMA-LR-1. If not confirmed, please explain.

(c) Please confirm that less than 4 percent of unidentified/empty container costs are distributed by Mr. Degen on the basis of fewer than 5 tallies, as shown in DMA-LR-1. If not confirmed, please explain.

(d) Please confirm that your analysis of distribution keys with fewer than 5 tallies includes distribution keys which would contain fewer than five tallies under the LIOCATT system (e.g., Nonmods Outgoing, Incoming, Transit, and Other pools). If not confirmed, please explain.

(e) Please confirm that LIOCATT uses distribution keys with fewer than 5 tallies in the distributing set. If not confirmed, please explain.

(f) Please confirm that your distribution analysis would result in distribution keys with fewer than five tallies. If not confirmed, please explain.

Responses:

(a) Not confirmed. I calculate 9.3 percent. My calculations are contained in MPA-LR- 9, worksheet UPS7.xls. I would further note that 32 percent of the costs of empty items and 51 percent of the costs of uncounted items are distributed based upon distribution sets with coefficients of variation greater than 50 percent, for which there is no statistical basis to conclude that the distributing key is not zero.

(b) Not confirmed. I calculate 3.2 percent. My calculations are contained in MPA-LR-9,

worksheet UPS7.xls. I would further note that 17 percent of the cost of identified containers is distributed based upon distribution sets with coefficients of variation greater than 50 percent, for which there is no statistical basis to conclude that the distributing key is not zero.

(c) Not confirmed. I calculate 5.8 percent. My calculations are contained in MPA-LR-9, worksheet UPS7.xls. I would further note that since unidentified and empty containers are distributed primarily on identified containers, the coefficient of variation deficiencies described above for identified containers would also affect unidentified and empty containers.

(d) - (e) Not confirmed. Witness Degen does not use the same distribution keys as LIOCATT and my analysis of the coefficients of variation for witness Degen's distributing sets pertain to his distribution methodology and not to LIOCATT. I agree that there could be distributing sets in LIOCATT with fewer than 5 observations, however it is much less likely than if distribution is done by item type and within cost pool.

(f) I assume the question refers to my proposed distribution keys rather than my distribution analysis of witness Degen's distribution keys. In MODS and BMC facilities, I have 7 distribution keys with fewer than 5 tallies. Six of these are in the nixie, central markup, and postage due activity codes. There are more distribution keys with fewer than 5 observations in the non-MODS offices, particularly for the smaller CAGs. These could be avoided by collapsing over some of the CAGs.

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UPS/MPA-T2-8. Please refer to your testimony at page 13 at which you discuss the proportion of not handling mail costs by operation type.

(a) Please confirm that alternative explanations exist, other than that this data is a "clear indication of the phenomenon GAO identified," to explain this data. If not confirmed, please explain.

(b) Please confirm that some operations may, by their very nature, involve more "not handling mail" than other operations. If not confirmed, please explain.

(c) Please confirm that the ratio of not handling costs to direct/mixed costs in the LSM pool is 0.35, while the same ratio for SPBS Priority Mail (SPBSPRIO) is 0.92 (as shown in LR-H-23 and Exhibit DMA-2). If not confirmed, please explain.

(d) Please assume that the ratios discussed above are the result of the nature of the LSM and SPBS Priority Mail operations. Please explain why it is not appropriate to distribute the costs for not handling mail by cost pools in this hypothetical example.

Responses:

(a) Not confirmed. Periodicals' mailers have been seeking an explanation for the alarming increase in not-handling costs since 1990. So far, the Postal Service has not offered one. This failure has occurred, as I explained in my testimony, despite extensive efforts by the Commission to press the USPS to answer questions about the category "working but not handling mail" and about the amount of break time. MPA-T2 at 9. Witness Stralberg and I have concluded that the rapid growth in not-handling costs at operations where productivity is not measured and where employees are frequently assigned while awaiting productive work elsewhere is due to inefficiency related to automation. The Postal Service has offered no reasonable alternative explanation.

(b) I agree that some operations may involve more not-handling operations than others.

In fact, as I pointed out in my testimony, witness Barker attested to this fact in Docket R94-1, suggesting that the large increase in not-handling and break time in fiscal year 1993 was not a problem since employees at *automated operations* are often tending the machines instead of touching the mail. MPA-T2 at 13. This theory does not explain why there would be so much not-handling at *manual* operations, particularly allied operations, or why there should have been such rapid growth in not-handling tallies at *manual* operations.

(c) Confirmed.

(d) I find it hard to assume that the "nature" of small parcel and bundle sorter (SPBS) activity would suggest that not-handling costs should be as large as direct and mixed costs at the operation. Employees working at the SPBS would generally be keying, feeding mail onto the belt, or removing sorted mail from the machine. It seems clear, therefore, that most legitimate activity at the SPBS should result in handling tallies rather than not-handling tallies. I do not think that the distribution of not-handling costs should be done on the basis of assumptions that seem counterintuitive.

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UPS/MPA-T2-9. Please refer to your Table 2, at page 14 of your testimony.

(a) Please confirm that the "automation refugee" problem could be evidenced by increasing (or stable) productivity in automated operations and simultaneous decreasing productivity in manual operations. If not confirmed, please explain.

(b) Please confirm that your Table 2 (reproduced in part below) shows average productivity change of + 4.5% for automated operations and + 5.8% for manual operations. Please explain how this is evidence of an "automation refugee" problem.

(c) Please confirm that an alternative explanation for the data presented in your Table 2 (reproduced in part below) is that letter productivity (whether manual or automated) has declined 16.8% while non-letter productivity has increased 16.7%. If not confirmed, please explain.

Percent Change In Productivity: FY 1988 - FY 1996

Operation	Percent Change	Operation Type	Letter	Non-Letter
Optical Character Reader	(38.0)	A	(38.0)	
Bar Code Sorter	2.0	A	2.0	
Letter Sorting Machine	(21.0)	A	(21.0)	
Manual Letter	(10.0)	M	(10.0)	
Manual Flat	(6.0)	M		(6.0)
Flat Sorting Machine	(18.0)	A		(18.0)
Manual Parcel	45.0	M		45
Mechanical Parcel	60.0	A		60
SPBS (Non-Priority)	37.0	A		37
Manual Priority	(6.0)	M		(6.0)
SPBS (Priority)	5.0	A		5.0
Mail Cancellation/Prep	9.0	A		
Average Automated	4.5	A		
Average Manual	5.8	M		
Overall Average			(16.8)	16.7

Source: MPA-T-2, page 14.

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Responses:

(a) It is possible that the automation refugee problem could lead to increased or stable productivity in automated operations and simultaneous decreasing productivity in manual operations. I would note that the inability to find productive assignments could affect productivity at all operations, but is most likely to affect productivity at operations where productivity is not monitored, such as opening units and platforms. I would further note that the productivity at automated operations may also be affected by the quality of the automated mailstream and that productivity at all operations is affected by managerial decisions and priorities.

(b) Not confirmed. The 4.5 percent and 5.8 percent figures represent simple averages of the productivity change columns, not a meaningful calculation. A dollar-weighted average of the productivity change for manual operations yields an average productivity change of -8 percent. The reason that the simple average masks this productivity decline is that the manual operation at which productivity increases significantly is the manual parcel sorting operation. This operation, however, only comprises a very small portion of manual sorting costs.

(c) Not confirmed. The -16.8 and 16.7 percent figures represent simple averages of the productivity change columns, not a meaningful calculation. A dollar weighted average of the productivity changes by shape shows that productivity dropped for both letters and flats, with letter productivity decreasing 12 percent and flats productivity decreasing by 13 percent. The only shape of mail experiencing productivity gains is parcels, perhaps not coincidentally, the shape of mail for which the Postal Service has significant competitors and therefore an incentive to improve productivity and lower costs.

DECLARATION

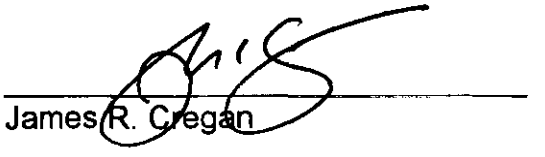
I, Rita Cohen, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Rita Cohen

Dated: Feb. 11, 1998

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.



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